



# STATE OF THE STATE

---

January 28, 2013



- ❖ Modest revenue growth in FY14.
- ❖ Cost increases would be needed for the BEP, TennCare, Health Insurance, Employee Salaries and Debt Service.
- ❖ Sales tax on food would be reduced from 5.25 to 5 percent.
- ❖ Affordable Care Act mandates would begin to have a fiscal impact in FY14.
- ❖ Reductions would be needed to balance.

- ❖ Requested that agencies submit a thoughtful and realistic 5% reduction plan.
- ❖ Encouraged agencies to limit their cost increase requests.
- ❖ Carefully reviewed the need for any cost increases.

# General Fund Revenue

## RECURRING REVENUE INCREASE

## RECURRING REVENUE

Revenue Growth at 3.89%	\$391.9M
-------------------------	----------

Increase in Revenue Base	306.4
--------------------------	-------

Transfer from Debt Service	13.4
----------------------------	------

Other State Revenues	96.0
----------------------	------

Tax Relief Legislation – Grocery, Hall, etc.	(23.1)
--	--------

Undesignated Fund Balance from FY13	8.6
-------------------------------------	-----

Other Adjustments	4.6
-------------------	-----

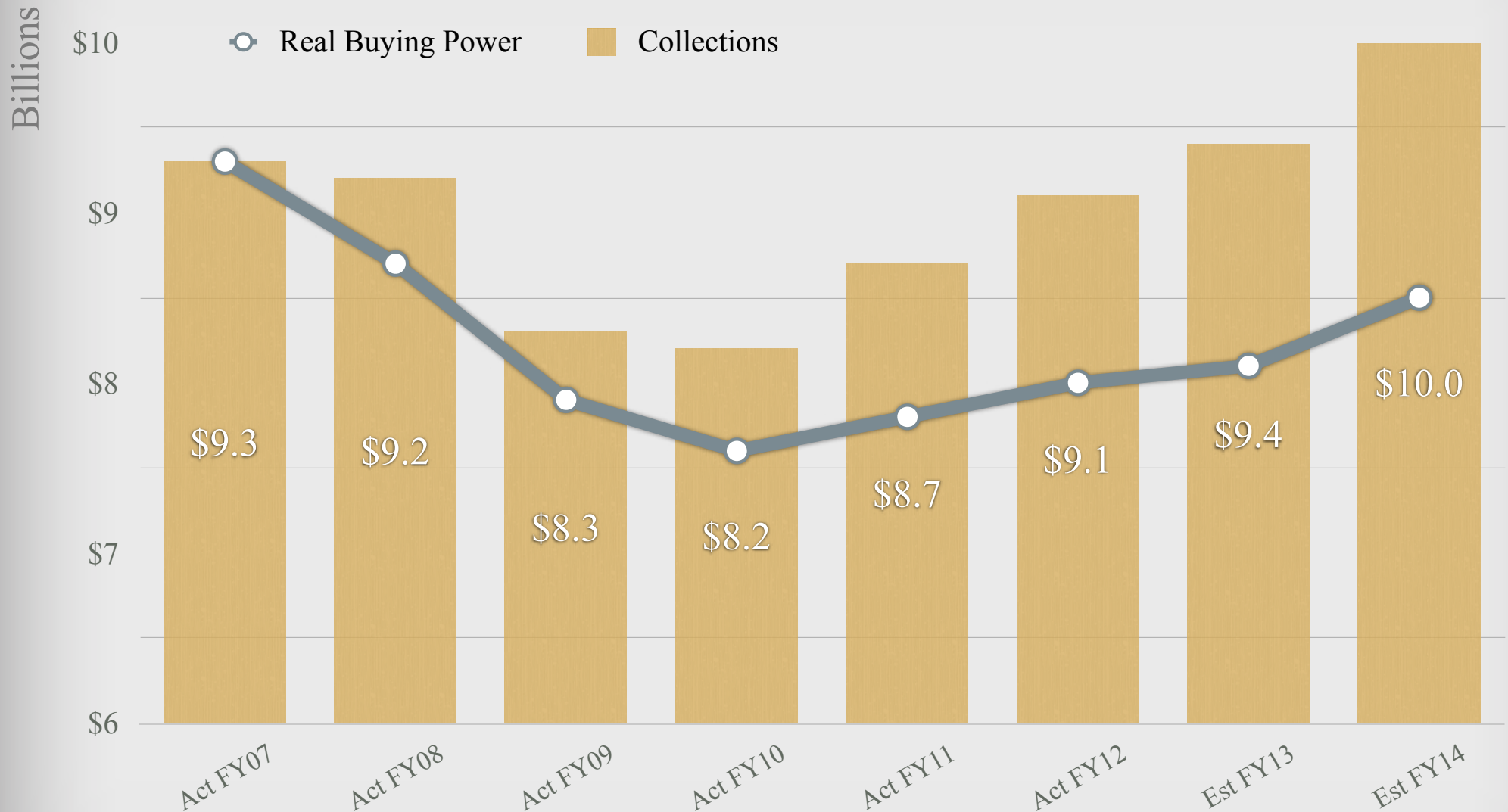
TOTAL	\$797.8
-------	---------



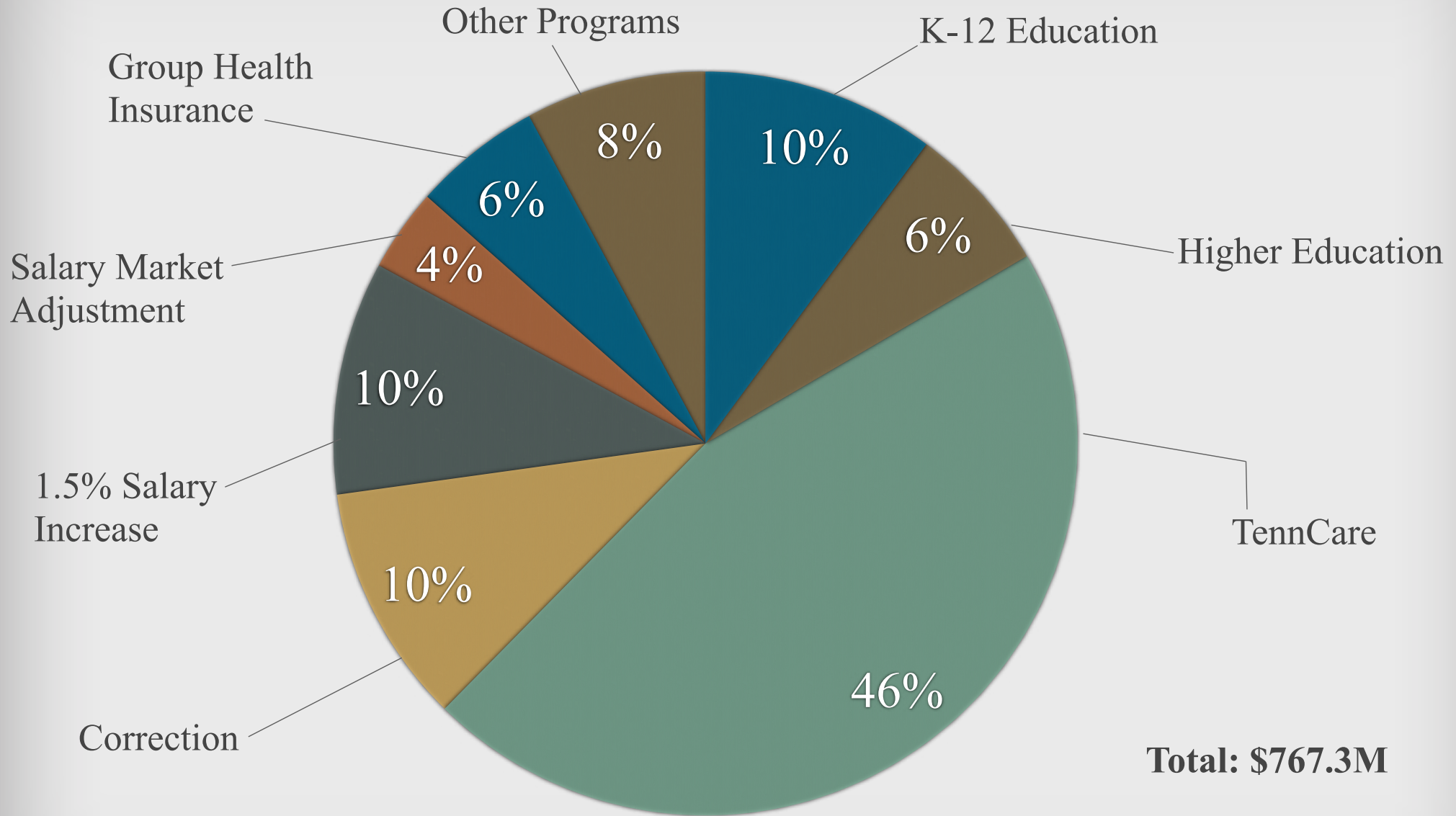
## RECURRING TAX CHANGES

Inheritance Tax	(\$18.7)
Sales Tax - Nexus	17.6
Film Credit Eliminated	1.0
Sales Tax – Grocery Food*	(21.2)
Hall Tax*	(1.5)

### Today's Revenue Purchases Less Than It Did In FY07



# Allocation of New Revenue Growth



# FY14 Cost Increases

	RECURRING	NON-RECURRING
MANDATED (State and Federal)		
Statutory salary increases	\$5.3M	0
Federal match rate change	47.3	0
Federal radio band requirements	0	6.3
CUSTOMER FOCUSED GOVERNMENT		
Next Gen IT	2.5	8.3
Centralized accounting	1.8	0
Drivers license wait time	1.0	0
Drug Courts	1.6	0

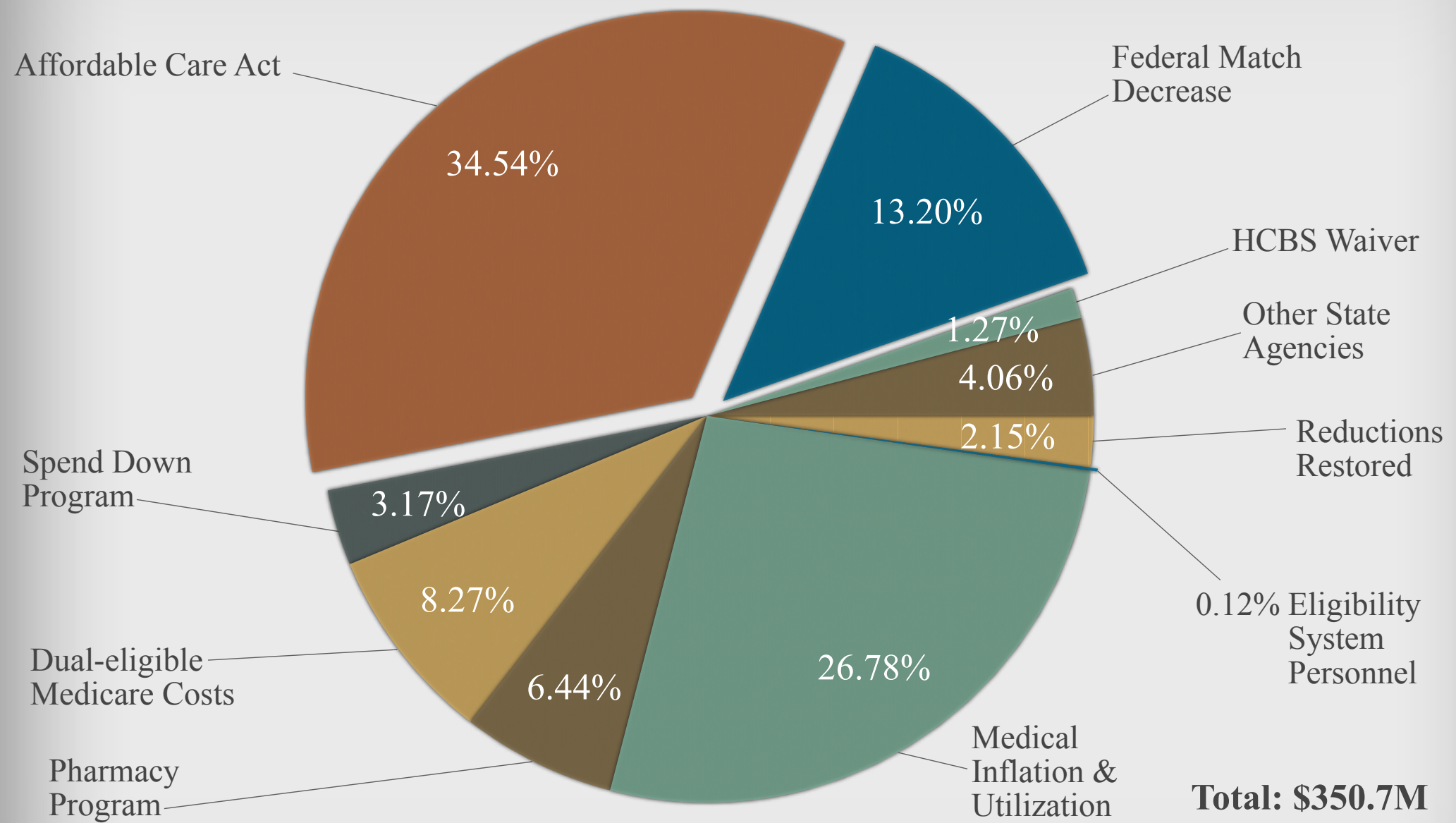
# FY14 Cost Increases

	RECURRING	NON-RECURRING
K-12 EDUCATION		
BEP formula growth	\$43.2M	0
BEP capital component	33.7	0
Local technology and infrastructure	0	51.0
HIGHER EDUCATION		
Institutional productivity	35.5	0
Complete College Act hold harmless	0	5.0
TN Student Assistance Awards	5.0	0
Equipment for Tech Centers & Community Colleges	0	16.5

# FY14 Cost Increases

	RECURRING	NON-RECURRING
HEALTH CARE SERVICES		
TennCare: medical inflation	\$94.0M	0
TennCare: pharmacy costs	22.6	0
TennCare: dual eligibles	29.0	0
TennCare: spend down	11.1	0
TennCare: enrollment increase (“woodwork” effect)	121.0	0
Home & Community Based Services	4.4	0
CoverKids inflation	8.2	0
Mental Health: substance abuse & evaluations legislation	4.4	0
Health and Wellness initiative	0	1.2

# TennCare Cost Increases State Funding





# TennCare Enrollment & Expenditures

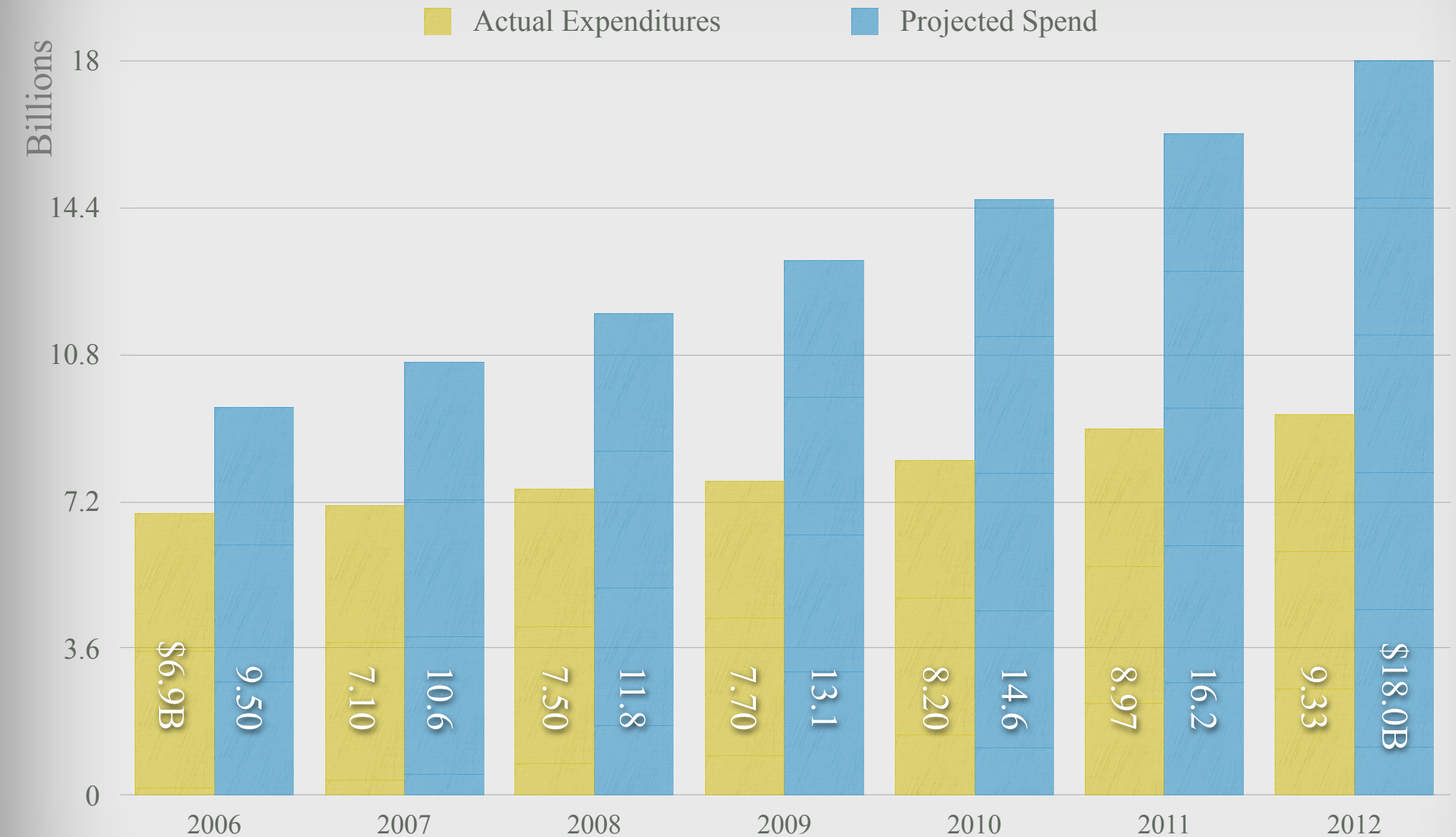




# TennCare Expenditures Per Enrollee



# TennCare Expenditures vs. Projected Spend

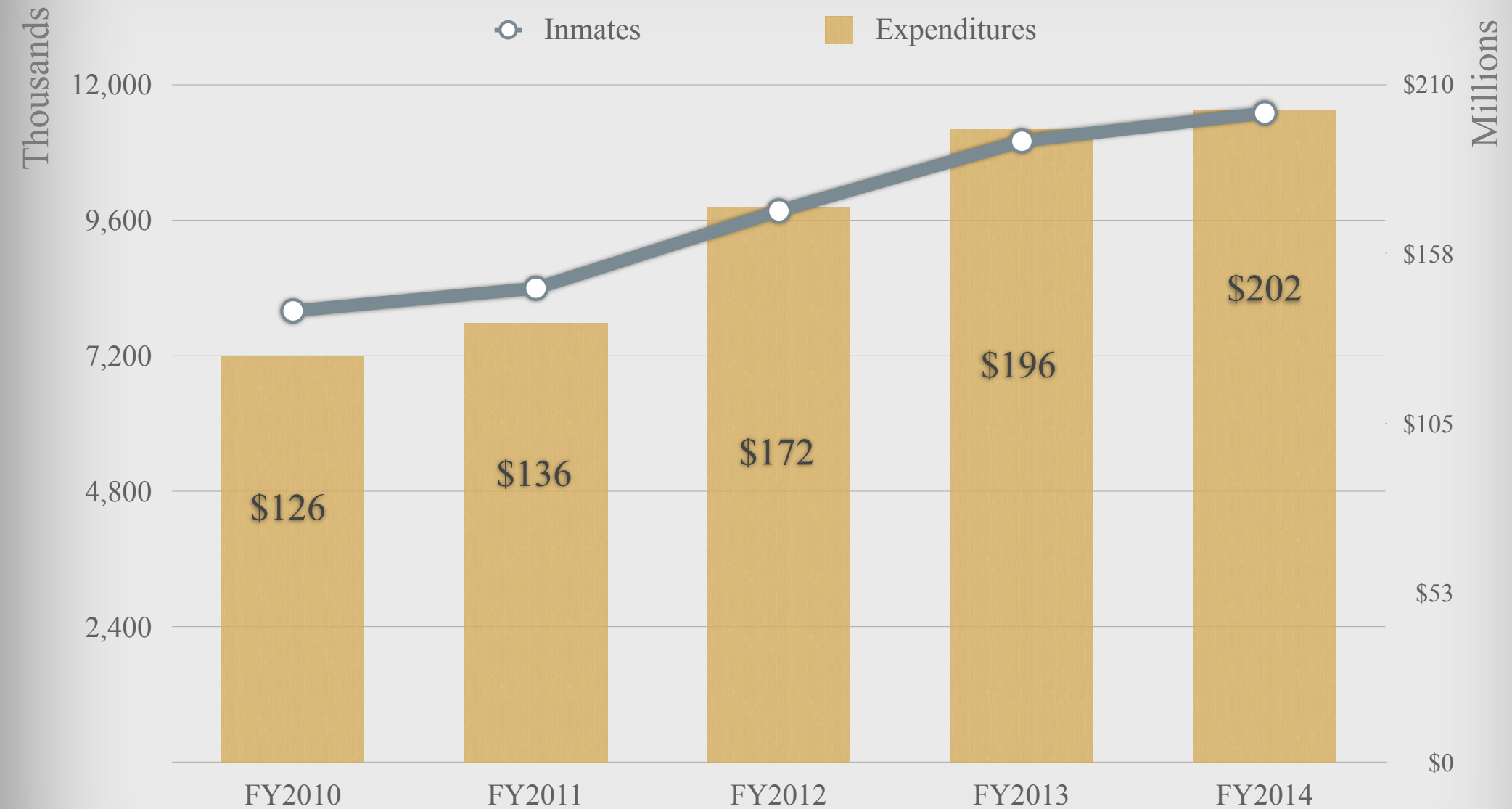


# FY14 Cost Increases

	RECURRING	NON-RECURRING
CHILD WELFARE AND SAFE COMMUNITIES		
Children's Services enhancements*	\$6.7M	0
State felons in local jails	48.1	0
Prison service contracts	21.9	0
BUSINESS DEVELOPMENT		
Jobs4TN	5.0	25.0
Film & Television	2.0	11.4
Unemployment insurance revenue loss	0	4.0
Workers' Compensation legislation	0.6	0

\*enhancements to investigations and assessments, salary upgrades, residential and foster care rate increases

# Local Jail Population Trend & Funding



# FY14 Cost Increases

	RECURRING	NON-RECURRING
WORKFORCE DEVELOPMENT		
1.5% salary increase	\$22.1M	0
Teachers' salary increase	35.8	0
Higher Education salary increase	18.6	0
Total salary increase adjustment	76.5	0
Funding of salary study results	27.9	0
State employee group health insurance	7.1	0
Teachers' group health insurance	11.3	0
Higher Education group health insurance	6.0	0
Total group health insurance	\$24.4	0

# FY14 Recurring Base Reductions

TOTAL REDUCTION	\$139.7M
State	49.3
Federal	75.4
Other	15.0

Reduces state funding by \$49.3 million.

Reduced federal funding by \$75.4 million.

0.8% average reduction.

393 positions reduced:

228 filled

165 vacant

# FY14 Reductions – Selected Items

## TENNCARE

Establish protocols for pain management	\$4.2M
Adjust pricing differential for C-section births	1.7
Require \$1.50 co-pay for generic prescriptions	2.1
Drug screening frequency	1.7
Durable medical equipment pricing	1.3
Reduce early elective deliveries	1.9
Reductions made by other agencies	4.9

- ❖ TennCare will require delivery of pharmacy benefits through the MCOs.
- ❖ The MCOs will pay an additional \$45.1 million in HMO premium tax.
- ❖ TennCare will require \$15.6 million to draw federal dollars to reimburse the MCOs.
- ❖ The General Fund will gain a net of \$29.5 million.



# FY14 Reductions – Selected Items

## HEALTH

Quality Enabling Program (pilot since 1986)	\$1.6M
Reduce eight positions in administration, lab services, & health planning	0.4

## INTELLECTUAL AND DEVELOPMENTAL DISABILITIES

Utilize Harold Jordan Center to full capacity	2.9
Reduce six central office administrative positions	0.5
Reduce 35 regional administrative positions	1.5
Reduce 35 positions in the Resource Centers and restructure services provided	5.4

# FY14 Reductions – Selected Items

## HUMAN SERVICES

Reallocation of federal child care funding	\$1.4M
Reduce information technology contracts and reduce 8 vacant positions	0.8
Reduce unspent Child Support contract funds	0.8

## CHILDREN'S SERVICES

Reduce 10 vacant administrative positions	0.6
Reorganization of administrative functions and reduction of 10 positions	0.3
Reorganization of Human Resources and Inspector General divisions. Reduction of 10 positions	0.5

# FY14 Reductions – Selected Items

## AGRICULTURE

Reduce 37 positions department-wide	\$1.1M
-------------------------------------	--------

## FINANCE & ADMINISTRATION

Eliminate the Criminal Justice Coordinating Council, operational and position reductions	0.4
--	-----

## LABOR

Reduce various operational expenditures	0.5
Reduce 11 positions	0.4

## REVENUE

Reduce 34 vacant positions in various divisions	1.2
Replace general fund appropriations with business tax collections	1.7

# Facility Maintenance

TOTAL REDUCTION	\$1.7M
State	0
Federal	0
Other	1.7

General Services is soliciting proposals to professionally manage state space and reduce operating costs.

The winning vendor will employ staff and manage service providers.

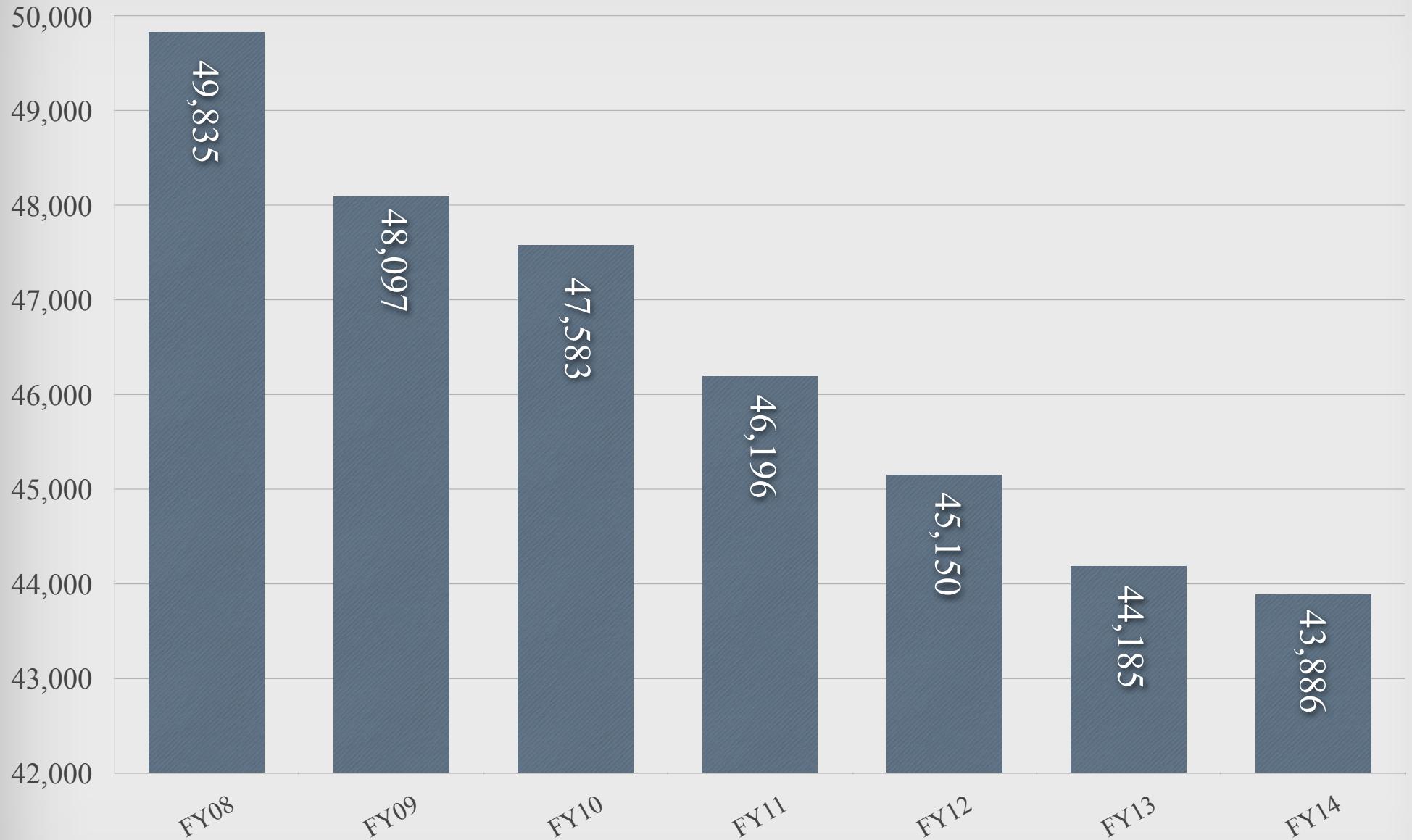
Cost savings will be realized through management expertise and strategic sourcing.

Approximately 131 filled positions will be reduced, but all efforts will be made to place these individuals elsewhere.

# General Fund Position Adjustments

CURRENT POSITIONS	44,185
Reduction Plans	(393)
Career Center Closures	(138)
Non-Recurring Appropriations	(57)
Other adjustments	3
Agency Cost Increases	286
Recommended Positions	43,886
Position Change From Current Year	(299)

# General Fund Positions



# FY14 Capital Projects – Selected Items

Bledsoe Correctional Complex Expansion	\$30.2M
New High School for TN School for the Deaf	22.0
Additional Funding for Montgomery County Veterans Home	4.3
Phase 3 of the Capital Improvements Master Plan	3.0
Repurpose Six State Office Buildings	39.2
Demolition of Cordell Hull and Central Services Building	6.4
T3 (Office Consolidation)	7.7
Safety & Mechanical Upgrades at John Sevier Office Building	15.0

# Disposal of Cordell Hull & Central Services Buildings

ESTIMATED REQUIRED MAINTENANCE	\$45.0M
Re-locate Current Occupants	(13.5)
Pay Off Outstanding Debt	(5.0)
Demolition	(6.4)
Capital Cost Avoidance From Disposal	\$20.1



TOTAL HIGHER EDUCATION CAPITAL OUTLAY	\$307.3M
---------------------------------------	----------

Capital Maintenance

59.8

Nashville State – New Academic Support Bldg.

19.3

Northeast State – Technical Education Complex

33.2

University of Memphis – Community Health Facility

56.8

Technology Center - Nissan Education and Training Facility

35.4

UT Health Sciences – Renovations

66.5

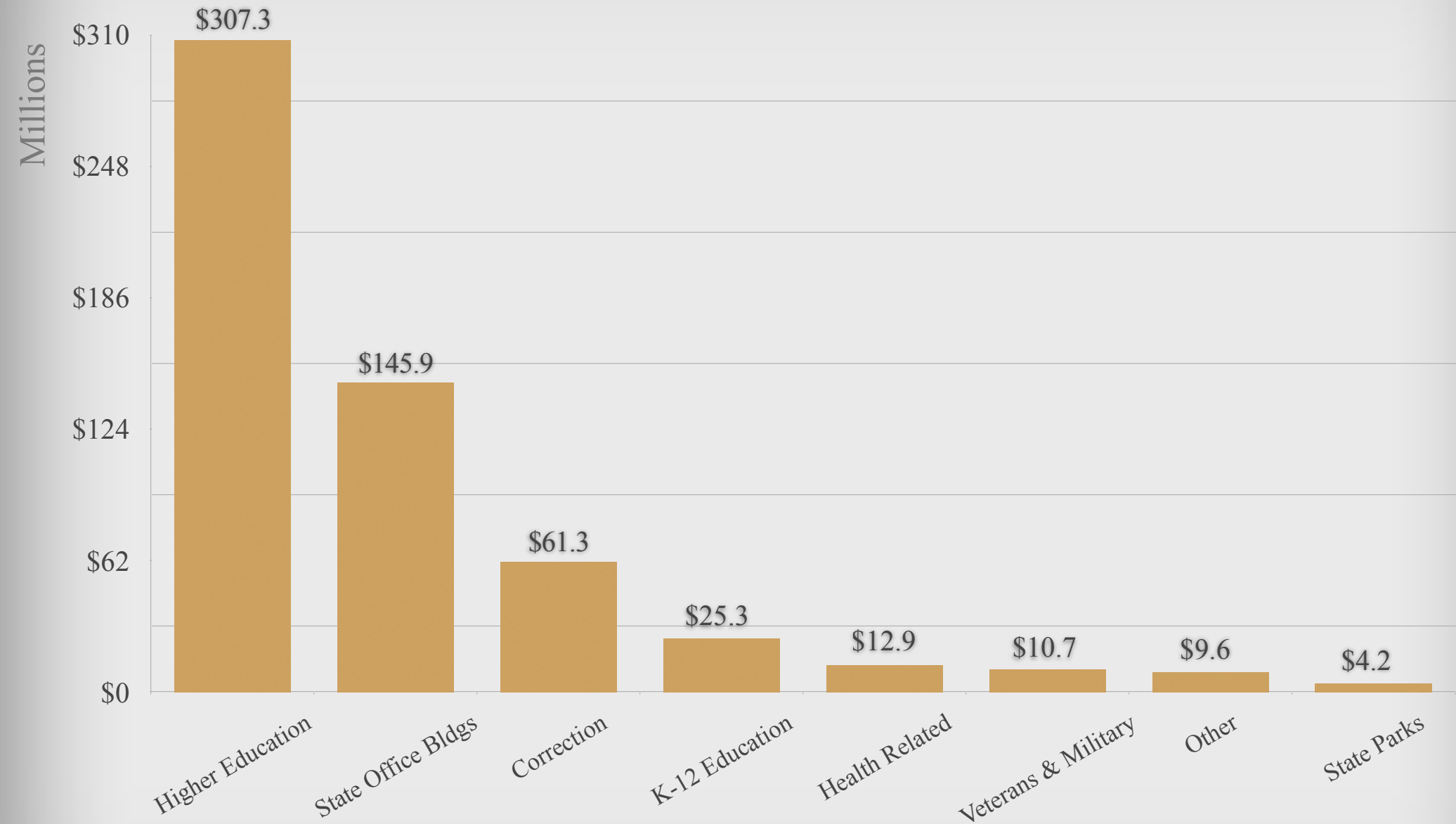
\* UT Knoxville – Steam Plant Conversion

24.0

Statewide – Planning Funds for construction of seven buildings

12.3

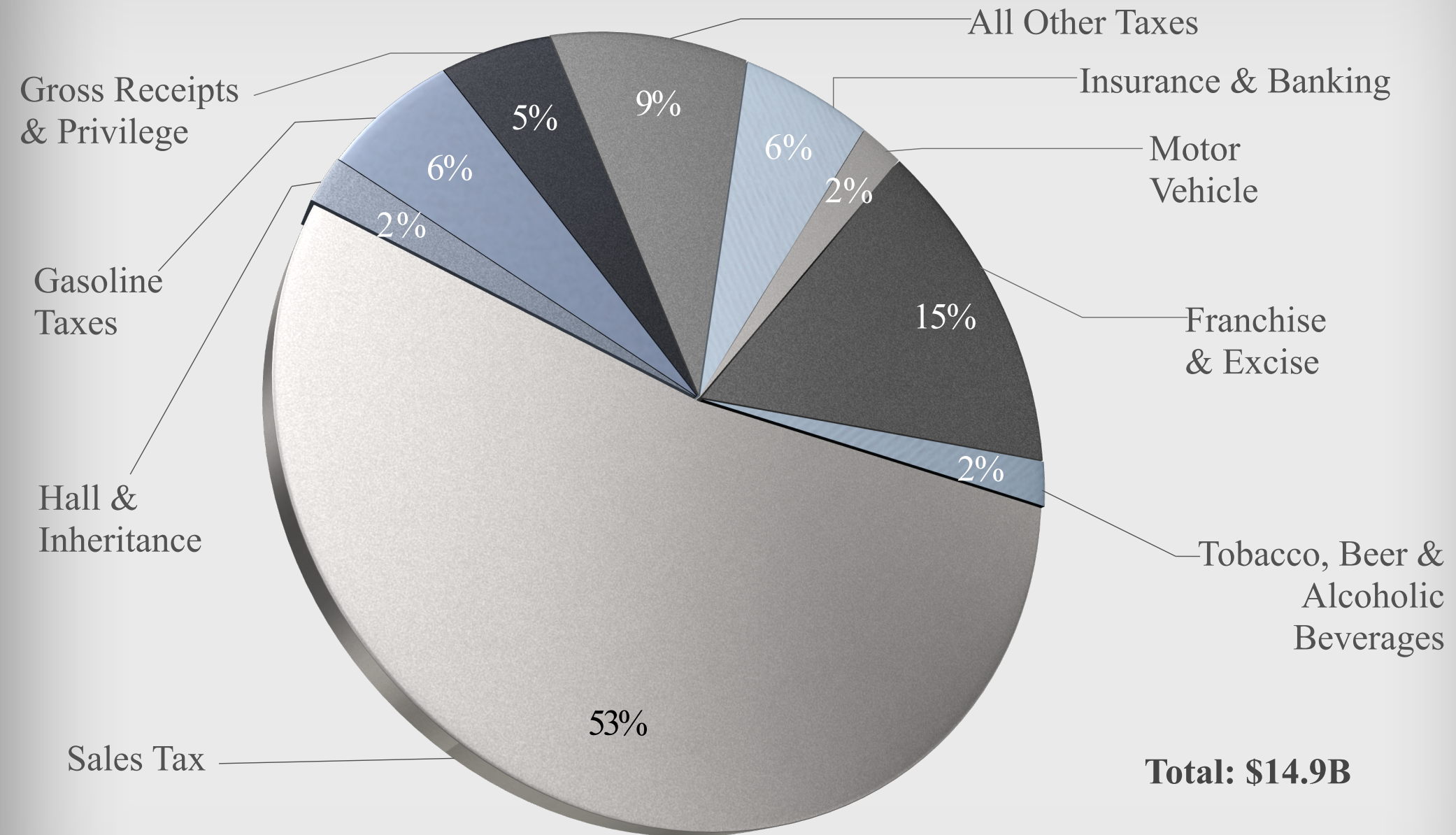
# FY14 Capital Outlay



DEPARTMENT	DESCRIPTION	STATE
Comptroller	Property tax relief for seniors, veterans, disabled, etc.	\$2.5M
Claims & Compensation	Unclaimed property audit settlement fee	2.9
Finance & Administration	Next Generation IT - standardization, training	2.5
General Services	Real estate transaction fees	1.6
Environment & Conservation	Revenue undercollection	3.6
Correction	State inmates in local jails	41.8
	Medical contracts	4.5
Economic & Community Dev.	FastTrack Infrastructure and Job Training	35.0
	TNInvestco	31.1

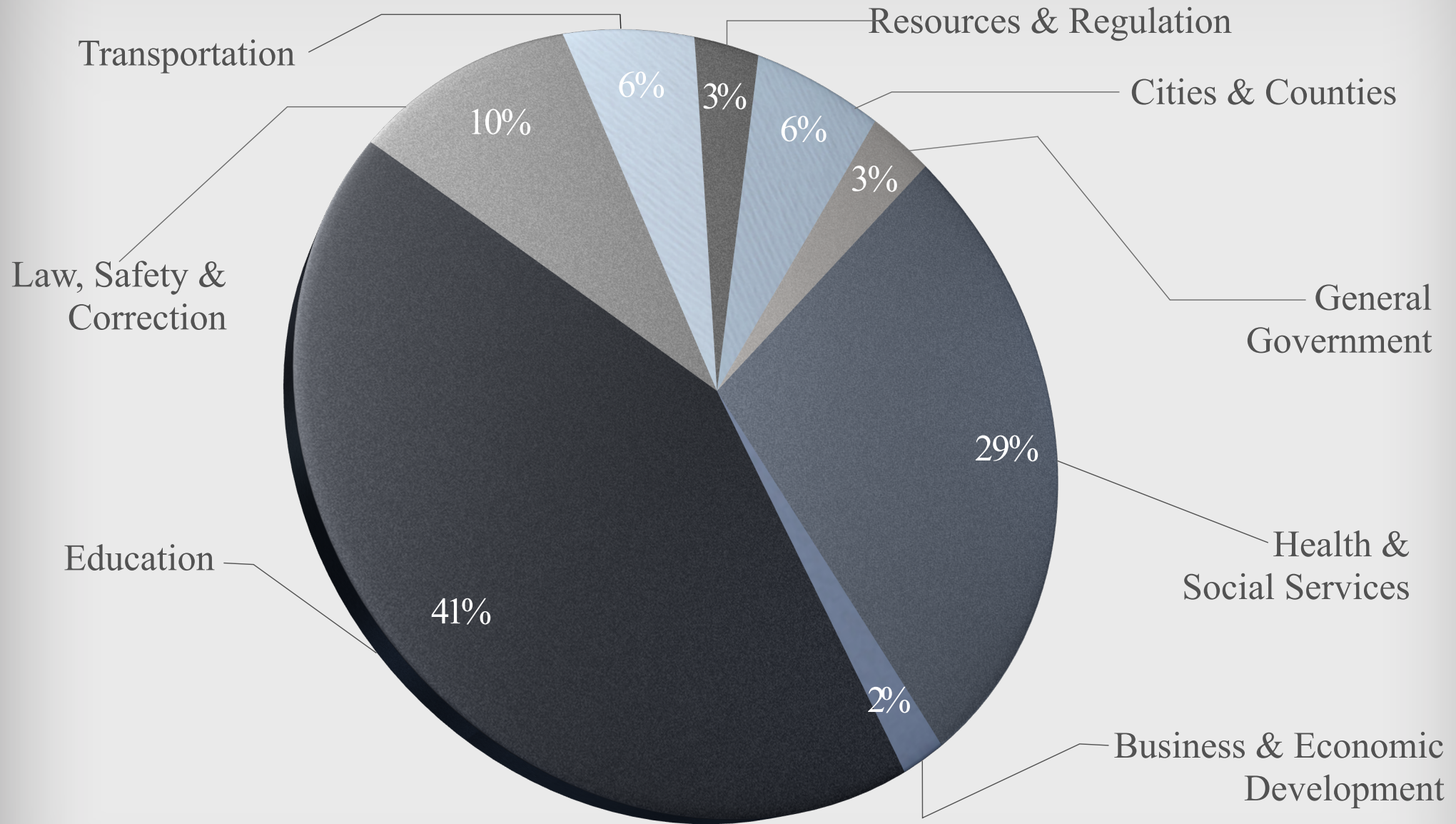
DEPARTMENT	DESCRIPTION	STATE
Mental Health	Lakeshore closure	\$2.7M
Safety	Revenue loss from 2011 legislation (reinstatement fee)	7.6
Miscellaneous Appropriation	MSA Contingency Appropriation	5.7
	Retirees health insurance	1.3
Facilities Revolving Fund	Holdover leases and relocation costs	4.3
	T3 (Office Consolidation) cabling	1.0

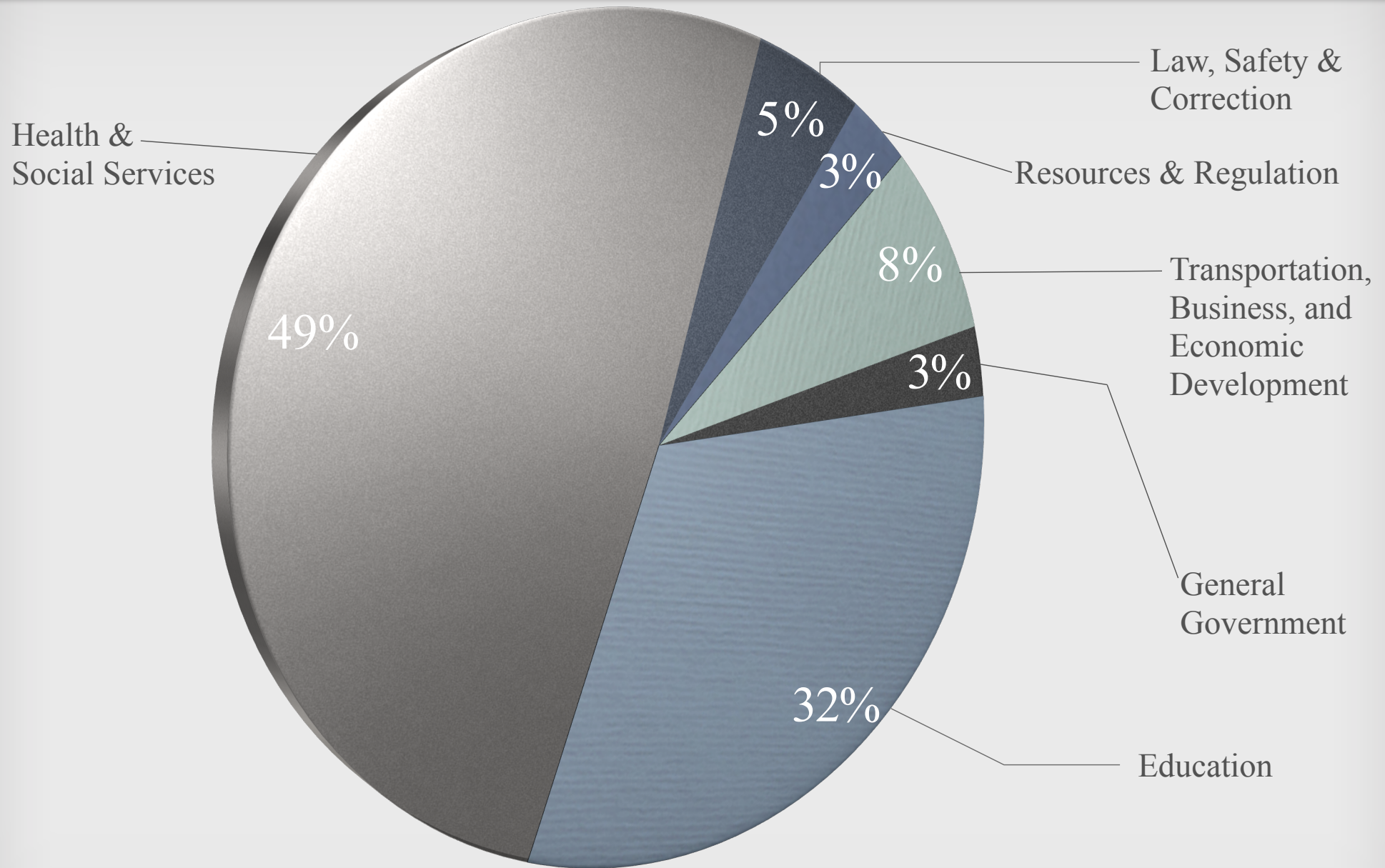
# Where Your State Tax Dollar Comes From





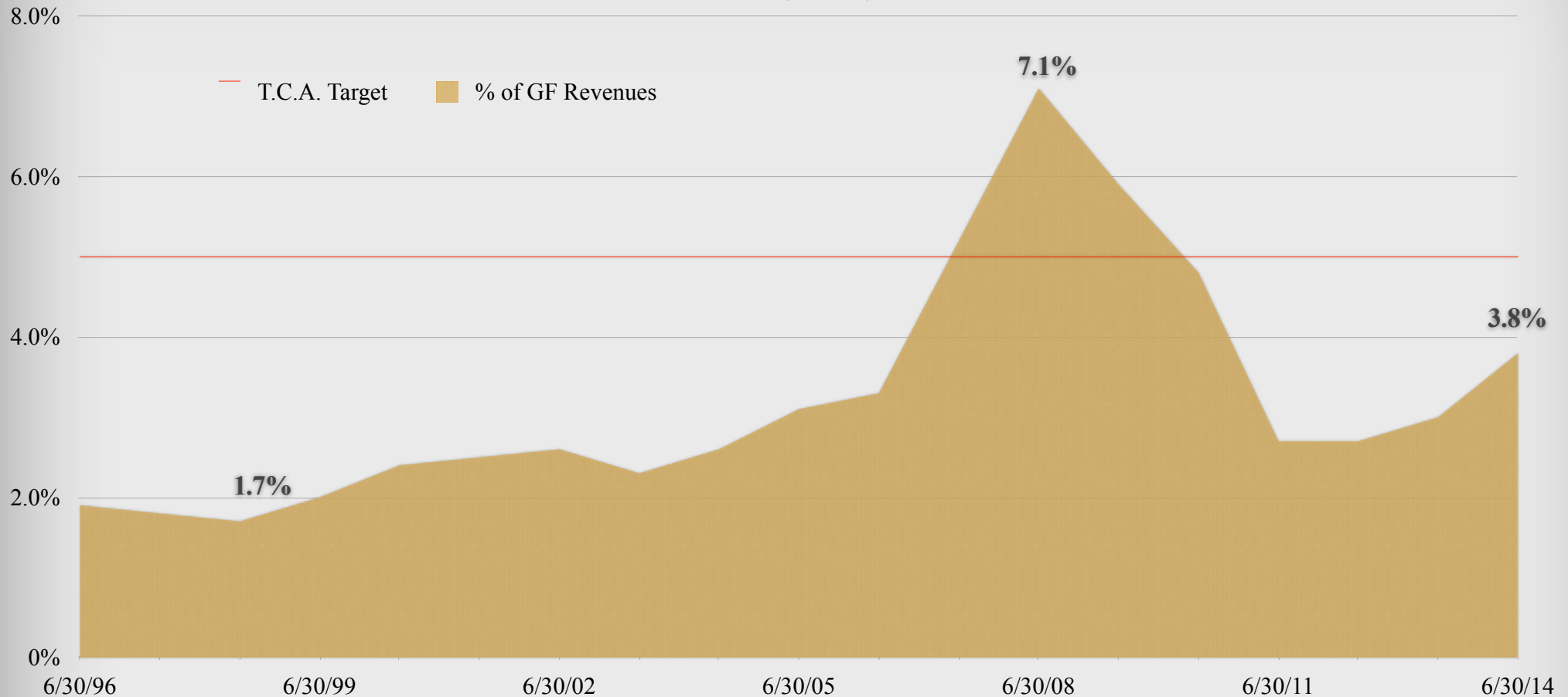
# Where Your State Tax Dollar Goes





# Revenue Fluctuation Reserve (Rainy Day Fund)

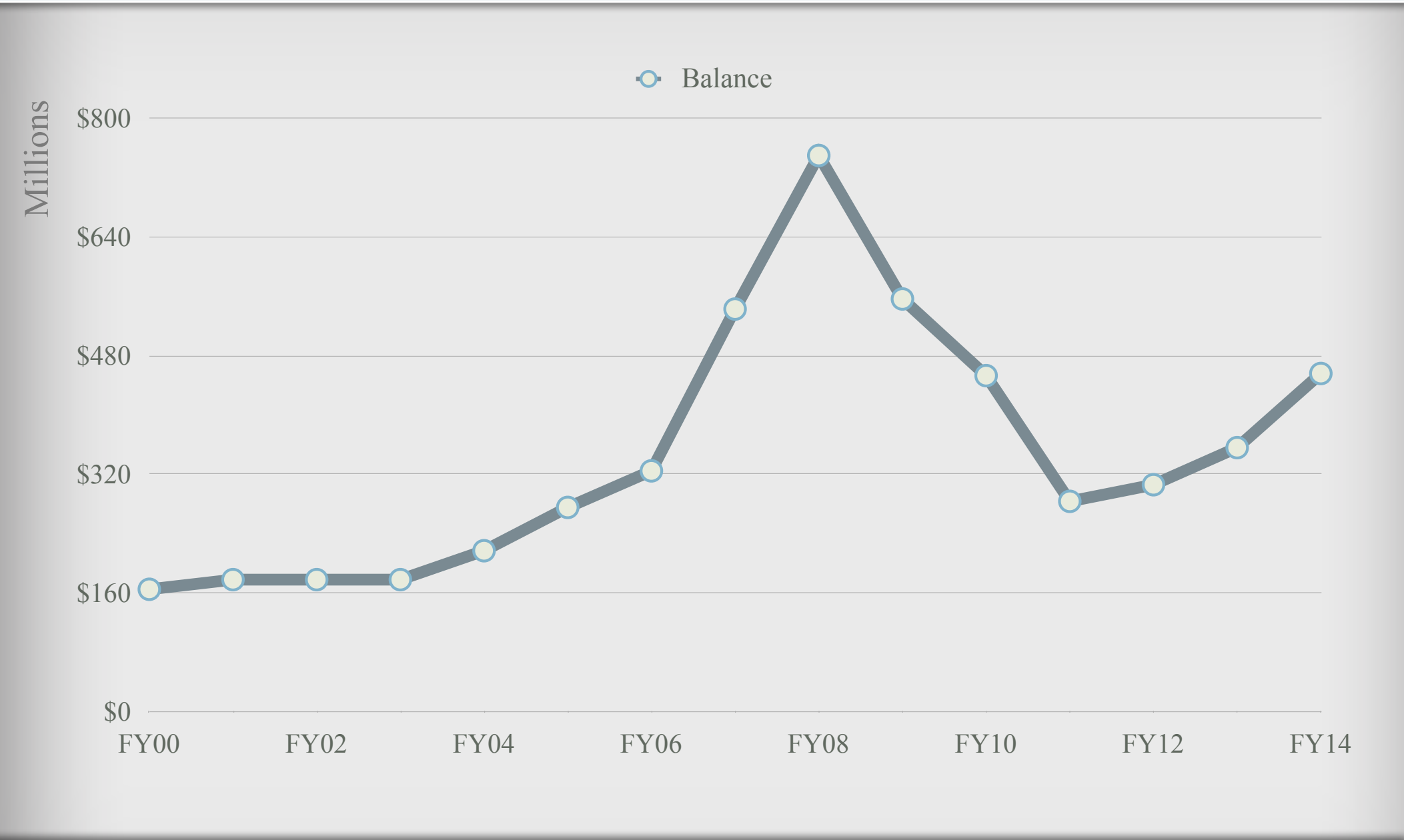
## Revenue Fluctuation Reserve (Rainy Day Fund) - Percent of GF Revenues



Statutorily Required Deposit: 10% of revenue growth if reserve is less than 5% of total revenue.



# Revenue Fluctuation Reserve (Rainy Day Fund)



- ❖ Fully funds the BEP and TennCare program growth.
- ❖ Funds higher education based on outcomes.
- ❖ Provides for a salary increase and future market adjustments.
- ❖ Continues to invest in long-deferred capital projects.
- ❖ Continues to give tax relief by reducing taxes.
- ❖ Significant deposit to the rainy day fund.



# **STATE OF THE STATE**

---

TENNESSEE

January 28, 2013